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October 6, 2005

The Honorable Charles L.A. Terreni  
Chief Clerk & Administrator  
Public Service Commission of South Carolina  
ATTN: Docketing Department  
101 Executive Center Drive  
Columbia, South Carolina 29210

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RE: Docket No. 2002-5-G – Annual Review of South Carolina Electric & Gas  
Company's Purchased Gas Adjustments and Gas Purchasing Policies.

Dear Mr. Terreni:

Order No. 2002-747 in the above docket directed South Carolina Electric & Gas Company ("SCE&G") to provide the Commission with quarterly updates related to its review of the benefits of diversifying its gas supply. This was reiterated in the Commission's Order No. 2003-652 dated November 17, 2003. Pursuant to those orders, enclosed for filing are ten (10) copies of the update, entitled "South Carolina Electric & Gas Company Natural Gas Supply Diversity Report, September 30, 2005." This report should be read in conjunction with the first report filed by SCE&G on March 31, 2003, and with all reports filed thereafter.

If there are any questions, please do not hesitate to contact me.

With kind regards,

Patricia B. Morrison

PBM/kms  
Enclosures

cc: Dan Arnett, ORS  
Mr. Brent Sires

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**South Carolina  
Electric & Gas Company  
Natural Gas  
Supply Diversity Report  
September 30, 2005**

## **INTRODUCTION**

South Carolina Electric & Gas Company (“SCE&G”) is a distributor of natural gas in South Carolina. SCE&G contracts with South Carolina Pipeline Company (“SCPC”), an intrastate pipeline operating wholly within South Carolina, for the purchase of all of its natural gas supplies and delivery within the state to SCE&G’s 193 metered delivery points. SCE&G’s purchases from SCPC are made under SCPC’s tariffs and rates that are approved by the Public Service Commission of South Carolina (“Commission”). SCPC purchases gas in the interstate gas markets and transports it to South Carolina using interstate pipeline storage and transportation services that it holds to serve SCE&G and its other customers.

In an order dated October 28, 2002, the Commission required SCE&G to review the benefits of diversifying its gas supply, which would include consideration of the direct purchase of its own gas supply in the marketplace, and to provide the Commission with quarterly updates on such activities commencing in the first quarter of 2003.<sup>1</sup>

The Commission in an order dated November 17, 2003, instructed SCE&G to continue to file these quarterly updates.<sup>2</sup> This report has been prepared and filed in response to this Commission order. SCE&G files this Supply Diversification Report as a continuation of earlier reports filed at the end of each quarter from March 31, 2003 through June 30, 2005; as well as testimony filed by Dan Ives on behalf of SCE&G in its annual PGA Docket No. 2003-5-G.

## **GAS COST**

SCE&G has described in detail the method by which it buys 100% of its natural gas supplies from South Carolina Pipeline Corporation (SCPC). By contracting with a group of over 70 qualified natural gas marketers and producers and currently purchasing from

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<sup>1</sup> See Docket No. 2002-5-G – Order No. 2002-747, October 28, 2002

<sup>2</sup> See Docket No. 2003-5-G - Order No. 2003-652, November 17, 2003

some 30 of these, SCE&G believes that SCPC purchases its natural gas supply in a very diverse fashion, which in totality, is representative of the market as a whole.

SCE&G understands that SCPC continuously monitors the market price of gas in order to purchase prudently. The gas market over the last few years has experienced unprecedented volatility, and thus pricing has varied significantly. A purchaser of natural gas makes its decisions based on historical data, current pricing trends, and the needs of its customers in order to provide reliable, competitively priced supplies.

In its reply to Question No. 6 of PSC Data Request No. 1 in Docket 2003-5-G, SCE&G produced exhibits illustrating its monthly check of SCPC commodity purchase prices as compared to the indices of Inside FERC First of Month and Gas Daily Average. The period submitted encompassed September 2002 through July 2003. The attachments to this filing continue the same format of price comparison for the period of September 2004 through November 2004.

SCE&G believes SCPC's purchasing is consistent with competitive market pricing. Additionally, SCE&G experienced no supply failures during the review period indicating a continuing reliable supply of gas to meet SCE&G's load requirements.

## **NON-GAS COST**

### **Intrastate Infrastructure**

SCE&G, a distributor of natural gas in South Carolina, does not receive direct service from an interstate pipeline. The infrastructure to make the connection between the interstate pipe and the distribution pipe of SCE&G is provided by SCPC. SCPC not only provides this connection for SCE&G but also to a number of other Sales for Resale ("SFR") and industrial customers throughout South Carolina. In addition, SCPC uses two LNG facilities to provide peaking service in order to meet its customers' load requirements. The rates and terms of service applied to SCE&G for these facilities are made under SCPC tariffs that are approved by the Commission.

### **Interstate Infrastructure**

SCPC is currently connected to three interstate pipelines, Southern Natural Gas (“Southern”), SCG Pipeline and Transcontinental Gas Pipeline (“Transco”). Southern’s pipe terminates just inside the state at Aiken, SCG interconnects with SCPC’s system in Jasper County, South Carolina and Transco passes through the northwestern side of South Carolina with its main point of interconnection at Grover in the up-state. SCPC has firm contracts with the Southern and Transco pipelines for Firm Transportation (“FT”) and storage service to serve its SFR and industrial customers. The interconnection with the SCG pipeline will provide an additional source of gas primarily from the Elba Island LNG facility located in Savannah, Georgia. The rates and terms of service applied to SCPC for these services are set and approved by the Federal Energy Regulatory Commission (FERC).

### **SCPC’s Other Services**

SCPC provides an Industrial Sales Program and a Hedging Program. Both of these programs are part of its tariff and have Commission oversight and approval. These programs are reviewed in SCPC’s annual review of its purchased gas cost.

### **SUMMARY**

The non-gas charges that SCPC has included in its tariff are set and approved by the Commission or the FERC and therefore are charged uniformly to all similarly situated customers. These include the recovery of costs that are necessarily incurred regardless of who purchases the commodity. The commodity cost of gas, based on SCE&G’s continuous review and that of the Commission, is purchased from a diverse and open marketplace at prices consistent with market conditions. SCE&G believes that if it purchased its own gas, it would purchase gas in a very similar manner to SCPC, from the same producers as SCPC, in accordance with the same pricing indices as SCPC, transport on the same interstate pipelines as SCPC, and also transport on SCPC to SCE&G’s delivery points.

# **ATTACHMENTS**

## June-05

\* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

Jun-05				
	Purchased		Price	Cost
SNG-1	892,690	\$	6.4078	\$ 5,720,146.72
SNG-2	1,317,697	\$	6.3782	\$ 8,404,529.56
SNG-3	1,349,213	\$	6.2802	\$ 8,473,267.99
SNG-4	217,340	\$	6.2681	\$ 1,362,306.11
Transco-1	19,182	\$	7.5240	\$ 144,326.06
Transco-2	435,454	\$	6.4106	\$ 2,791,522.89
Transco-3	82,660	\$	6.2512	\$ 516,720.52
<b>Total</b>	<b>4,314,236</b>			<b>\$ 27,412,819.85</b>
<b>Wtd Price</b>				<b>\$ 6.3540</b>

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

### First of Month Prices

Source	Location	Jun-05
Inside FERC	Southern Natural Gas-LA	\$ 6.32
Inside FERC	Transco-Zone 1 (pooling point)	\$ 6.15
Inside FERC	Transco-Zone 2 (pooling point)	\$ 6.28
Inside FERC	Transco-Zone 3 (pooling points)	\$ 6.35
Inside FERC	Transco-Mississippi, Alabama	\$ 6.37

### Gas Daily Average Prices

Date		Southern Natural, La. Daily		Transco Z1 Daily		Transco Z3 Daily		Transco Z4 Daily
1-Jun-2005	\$	6.4857	\$	6.3152	\$	6.4630	\$	6.4732
2-Jun-2005	\$	6.4960	\$	6.3407	\$	6.4885	\$	6.4987
3-Jun-2005	\$	6.7783	\$	6.6516	\$	6.7434	\$	6.7485
4-Jun-2005	\$	6.8245	\$	6.7281	\$	6.7944	\$	6.7638
5-Jun-2005	\$	6.8245	\$	6.7281	\$	6.7944	\$	6.7638
6-Jun-2005	\$	6.8245	\$	6.7281	\$	6.7944	\$	6.7638
7-Jun-2005	\$	7.2968	\$	7.1410	\$	7.2940	\$	7.2583
8-Jun-2005	\$	7.3892	\$	7.2583	\$	7.3959	\$	7.4265
9-Jun-2005	\$	7.4714	\$	7.3348	\$	7.4673	\$	7.4826
10-Jun-2005	\$	7.2917	\$	7.1258	\$	7.2889	\$	7.3297
11-Jun-2005	\$	7.3328	\$	7.1767	\$	7.3501	\$	7.3755
12-Jun-2005	\$	7.3328	\$	7.1767	\$	7.3501	\$	7.3755
13-Jun-2005	\$	7.3328	\$	7.1767	\$	7.3501	\$	7.3755
14-Jun-2005	\$	7.3328	\$	7.2022	\$	7.3654	\$	7.3959
15-Jun-2005	\$	7.5997	\$	7.4163	\$	7.6355	\$	7.6763
16-Jun-2005	\$	7.6305	\$	7.5183	\$	7.6610	\$	7.7069
17-Jun-2005	\$	7.6664	\$	7.5132	\$	7.6253	\$	7.6763
18-Jun-2005	\$	7.8050	\$	7.7222	\$	7.7783	\$	7.8395
19-Jun-2005	\$	7.8050	\$	7.7222	\$	7.7783	\$	7.8395
20-Jun-2005	\$	7.8050	\$	7.7222	\$	7.7783	\$	7.8395
21-Jun-2005	\$	8.0155	\$	7.7630	\$	7.9924	\$	8.0485
22-Jun-2005	\$	7.6356	\$	7.4469	\$	7.6406	\$	7.6253
23-Jun-2005	\$	7.5843	\$	7.4673	\$	7.5591	\$	7.5744
24-Jun-2005	\$	7.7126	\$	7.5846	\$	7.7069	\$	7.7273
25-Jun-2005	\$	7.6613	\$	7.5693	\$	7.7069	\$	7.7273
26-Jun-2005	\$	7.6613	\$	7.5693	\$	7.7069	\$	7.7273
27-Jun-2005	\$	7.6613	\$	7.5693	\$	7.7069	\$	7.7273
28-Jun-2005	\$	7.4919	\$	7.4469	\$	7.5336	\$	7.5540
29-Jun-2005	\$	7.2609	\$	7.0901	\$	7.2736	\$	7.2838
30-Jun-2005	\$	7.3533	\$	7.2889	\$	7.3654	\$	7.3806

## July-05

\* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

Jul-05		Purchased	Price	Cost
SNG-1		70,107 \$	7.7940 \$	546,415.57
SNG-2		103,451 \$	7.6652 \$	792,967.76
SNG-3		29,464 \$	7.5535 \$	222,557.55
SNG-4		3,362,455 \$	7.1210 \$	23,943,877.01
SNG-5		32,443 \$	7.0678 \$	229,299.26
Transco-1		67,652 \$	8.3203 \$	562,882.36
Transco-2		80,346 \$	8.2577 \$	663,472.27
Transco-3		79,654 \$	8.0954 \$	644,829.23
Transco-4		436,804 \$	7.3233 \$	3,198,842.66
Transco-5		89,232 \$	7.1595 \$	638,859.81
<b>Total</b>		<b>4,351,608</b>	<b>\$</b>	<b>31,444,003.48</b>
<b>Wtd Price</b>			<b>\$</b>	<b>7.2258</b>

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to Include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

### First of Month Prices

Source	Location	Jul-05
Inside FERC	Southern Natural Gas-LA	\$ 7.22
Inside FERC	Transco-Zone 1 (pooling point)	\$ 7.04
Inside FERC	Transco-Zone 2 (pooling point)	\$ 7.16
Inside FERC	Transco-Zone 3 (pooling points)	\$ 7.23
Inside FERC	Transco-Mississippi, Alabama	\$ 7.27

### Gas Daily Average Prices

Date		Southern Natural, La. Daily	Transco Z1 Daily	Transco Z3 Daily	Transco Z4 Daily
1-Jul-2005	\$	7.2198 \$	7.1359 \$	7.2532 \$	7.2889
2-Jul-2005	\$	7.1685 \$	7.1054 \$	7.2226 \$	7.2532
3-Jul-2005	\$	7.1685 \$	7.1054 \$	7.2226 \$	7.2532
4-Jul-2005	\$	7.1685 \$	7.1054 \$	7.2226 \$	7.2532
5-Jul-2005	\$	7.1685 \$	7.1054 \$	7.2226 \$	7.2532
6-Jul-2005	\$	7.5946 \$	7.4826 \$	7.6304 \$	7.7018
7-Jul-2005	\$	7.9231 \$	7.7579 \$	7.9720 \$	8.1657
8-Jul-2005	\$	7.8718 \$	7.6865 \$	7.8700 \$	8.1300
9-Jul-2005	\$	8.0001 \$	7.6865 \$	8.1351 \$	8.9049
10-Jul-2005	\$	8.0001 \$	7.6865 \$	8.1351 \$	8.9049
11-Jul-2005	\$	8.0001 \$	7.6865 \$	8.1351 \$	8.9049
12-Jul-2005	\$	7.6100 \$	7.5234 \$	7.7069 \$	7.8955
13-Jul-2005	\$	8.0566 \$	7.9261 \$	8.0791 \$	8.4971
14-Jul-2005	\$	8.0463 \$	7.9516 \$	8.0638 \$	8.1963
15-Jul-2005	\$	8.2157 \$	8.0281 \$	8.2524 \$	8.2983
16-Jul-2005	\$	8.2414 \$	8.0587 \$	8.2728 \$	8.2932
17-Jul-2005	\$	8.2414 \$	8.0587 \$	8.2728 \$	8.2932
18-Jul-2005	\$	8.2414 \$	8.0587 \$	8.2728 \$	8.2932
19-Jul-2005	\$	8.0463 \$	7.9720 \$	8.1198 \$	8.1810
20-Jul-2005	\$	8.0104 \$	7.9975 \$	8.1147 \$	8.1861
21-Jul-2005	\$	8.0925 \$	7.8802 \$	8.2014 \$	8.2524
22-Jul-2005	\$	7.9642 \$	7.7783 \$	8.0383 \$	8.1096
23-Jul-2005	\$	7.6921 \$	7.5591 \$	7.8140 \$	7.8955
24-Jul-2005	\$	7.6921 \$	7.5591 \$	7.8140 \$	7.8955
25-Jul-2005	\$	7.6921 \$	7.5591 \$	7.8140 \$	7.8955
26-Jul-2005	\$	7.7075 \$	7.5030 \$	7.9873 \$	8.0791
27-Jul-2005	\$	7.7178 \$	7.3908 \$	7.9465 \$	8.0332
28-Jul-2005	\$	7.8050 \$	7.4469 \$	7.9057 \$	8.0128
29-Jul-2005	\$	7.8769 \$	7.4877 \$	8.0332 \$	8.0536
30-Jul-2005	\$	7.8769 \$	7.4877 \$	8.0332 \$	8.0536
31-Jul-2005	\$	7.8769 \$	7.4877 \$	8.0332 \$	8.0536



## August-05

\* These are SCPC's Commodity Purchases for the Month - This Data is taken from their Form 1 "Gas Inputs to System and Derivation of Cost of Gas" and Includes Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

Aug-05				
	Purchased		Price	Cost
SNG-1	1,430,790	\$	7.9301	\$ 11,346,358.54
SNG-2	2,091,789	\$	7.8358	\$ 16,390,766.71
Transco-1	15,428	\$	10.4593	\$ 161,365.37
Transco-2	18,852	\$	10.2087	\$ 192,453.74
Transco-3	25,000	\$	10.0492	\$ 251,230.45
Transco-4	72,714	\$	9.9153	\$ 720,981.63
Transco-5	20,000	\$	9.4571	\$ 189,142.51
Transco-6	429,163	\$	8.0582	\$ 3,458,300.44
<b>Total</b>	<b>4,103,736</b>			<b>\$ 32,710,599.39</b>
<b>Wtd Price</b>				<b>\$ 7.9709</b>

Below are published indices that are reviewed by SCE&G in order to monitor SCPC's commodity purchase price and have been adjusted to include: Index Premiums, Shrinkage, Interstate Commodity Mark-ups, ACA, GRI and SCRM adders.

### First of Month Prices

Source	Location	Aug-05
Inside FERC	Southern Natural Gas-LA	\$ 7.89
Inside FERC	Transco-Zone 1 (pooling point)	\$ 7.54
Inside FERC	Transco-Zone 2 (pooling point)	\$ 7.85
Inside FERC	Transco-Zone 3 (pooling points)	\$ 7.96
Inside FERC	Transco-Mississippi, Alabama	\$ 8.00

### Gas Daily Average Prices

Date		Southern Natural, La. Daily	Transco Z1 Daily	Transco Z3 Daily	Transco Z4 Daily
1-Aug-2005	\$	7.9898	\$ 7.7579	\$ 8.0740	\$ 8.0689
2-Aug-2005	\$	8.3235	N/A	\$ 8.4461	\$ 8.4920
3-Aug-2005	\$	8.6777	\$ 8.2830	\$ 8.8794	\$ 8.9049
4-Aug-2005	\$	9.0371	N/A	\$ 9.1904	\$ 9.2261
5-Aug-2005	\$	8.8317	\$ 8.3849	\$ 8.9508	\$ 9.0171
6-Aug-2005	\$	8.8882	N/A	\$ 8.9865	\$ 9.0426
7-Aug-2005	\$	8.8882	N/A	\$ 8.9865	\$ 9.0426
8-Aug-2005	\$	8.8882	N/A	\$ 8.9865	\$ 9.0426
9-Aug-2005	\$	9.1808	\$ 8.9457	\$ 9.2771	\$ 9.3025
10-Aug-2005	\$	8.9652	\$ 8.6908	\$ 9.1037	\$ 9.1241
11-Aug-2005	\$	9.1192	\$ 8.8437	\$ 9.3280	\$ 9.3688
12-Aug-2005	\$	9.5761	\$ 9.2567	\$ 9.7614	\$ 9.8225
13-Aug-2005	\$	9.8892	\$ 9.5625	\$ 10.0111	\$ 10.0774
14-Aug-2005	\$	9.8892	\$ 9.5625	\$ 10.0111	\$ 10.0774
15-Aug-2005	\$	9.8892	\$ 9.5625	\$ 10.0111	\$ 10.0774
16-Aug-2005	\$	9.8122	\$ 9.4912	\$ 9.9194	\$ 9.9908
17-Aug-2005	\$	10.0535	\$ 9.6135	\$ 10.1233	\$ 10.3170
18-Aug-2005	\$	10.3718	\$ 9.9653	\$ 10.4496	\$ 10.6382
19-Aug-2005	\$	9.7968	\$ 9.1241	\$ 9.7359	\$ 9.8123
20-Aug-2005	\$	9.4683	\$ 8.8794	\$ 9.5065	\$ 9.7155
21-Aug-2005	\$	9.4683	\$ 8.8794	\$ 9.5065	\$ 9.7155
22-Aug-2005	\$	9.4683	\$ 8.8794	\$ 9.5065	\$ 9.7155
23-Aug-2005	\$	9.9303	\$ 9.4606	\$ 9.9347	\$ 10.1590
24-Aug-2005	\$	10.4436	\$ 9.9602	\$ 10.4394	\$ 10.6892
25-Aug-2005	\$	10.4436	\$ 9.8582	\$ 10.3323	\$ 10.7707
26-Aug-2005	\$	10.0432	\$ 9.6594	\$ 10.0162	\$ 10.3476
27-Aug-2005	\$	10.2178	\$ 9.5676	\$ 10.1590	\$ 10.3782
28-Aug-2005	\$	10.2178	\$ 9.5676	\$ 10.1590	\$ 10.3782
29-Aug-2005	\$	10.2178	\$ 9.5676	\$ 10.1590	\$ 10.3782
30-Aug-2005	\$	11.7321	\$ 10.7656	\$ 13.8753	\$ 14.5126
31-Aug-2005	\$	13.9857	\$ 11.0460	\$ 13.9773	\$ 15.1906